

Message Text

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INFO AMEMBASSY NAIROBI

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SUBJECT: FOREIGN INVESTMENT CLIMATE AND STATISTICS

REF: (A) STATE 165596, (B) ZANZIBAR 0153

1. AS EXPLAINED IN REF B, DIFFERENT NATURES OF TANZANIA AND ZANZIBAR ECONOMIES REQUIRE SEPARATE SUBMISSION. FOLLOWING NARRATIVE AND STATISTICS THEREFORE DEAL WITH MAINLAND TANZANIA ONLY.

2. THE GOVERNMENT STATES THAT OWNERSHIP OF MEANS OF PRODUCTION IS BASIC TO ATTAINING ITS GOALS OF SOCIALISM. IN MOST BASIC INDUSTRIES, ITS POLICY IS TO ACQUIRE 50 PERCENT OR MORE INTEREST. THE GOVERNMENT IS NOW WORKING HARD TO ENCOURAGE FOREIGN INVESTORS TO ENTER AGRICULTURAL SECTOR, LONG THE PRIORITY AREA FOR NATIONALIZATIONS, FOREIGN INVESTORS ARE JUDGED BY THE QUALITY OF THEIR OPERATIONS, THEIR WILLINGNESS TO REINVEST, AND TECHNOLOGICAL REPUTATION, AND PLANS TO TRAIN TANZANIAN MANAGERS AND TECHNICIANS PROSPECTIVE INVESTORS WHO OFFER THE ASSURANCE OF CAPTURING AN

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EXPORT MARKET FOR TANZANIA WILL BE PARTICULARLY WELCOME. IN

GENERAL, THERE IS A RELATIVE IMPROVEMENT IN THE INVESTMENT CLIMATE.

3. INVESTMENT LEGISLATION OFFERS FISCAL INCENTIVES, IMPORT DUTY RELIEF, AND EXCLUSIVE LICENSES. A FOREIGN INVESTMENT PROTECTION ACT IS ALSO IN EXISTENCE WHICH GUARANTEES COMPENSATION (IN THE EVENT OF EXPROPRIATION) AND THE REMITTANCE OF PROFITS; ITS INTENT HAS IN CERTAIN CASES BEEN IGNORED OR DELAYED IN APPLICATION. EXCHANGE AND IMPORT CONTROLS ARE VERY RIGOROUS AND THE OUTLOOK FOR PROFIT REMISSIONS LIKELY REMAIN POOR FOR SOME TIME. INCOME TAXES ARE HIGH BUT PARTIAL EXCEPTIONS ARE MADE. MINIMUM WAGES ARE RISING BUT AT A DECLINING RATE. THE GOVERNMENT IS SERIOUSLY CONCERNED WITH THE DECLINE IN LABOR PRODUCTIVITY, AND FOREIGN INVESTMENT IS NOW CONSIDERED A KEY TO REVERSING THE TREND. CONSEQUENTLY MANAGEMENT-GOVERNMENT RELATIONS ON LABOR QUESTIONS HAVE NEVER BEEN BETTER, ALTHOUGH LABOR INDISCIPLINE AND TOO LITERAL INTERPRETATION OF THE GOVERNMENT'S SOCIALIST POLICIES BY EMPLOYEES CAN STILL CAUSE PROBLEMS.

4. AN INVESTMENT GUARANTEE AGREEMENT IS BINDING BETWEEN TANZANIA AND THE US, AND OPIC HAS EXTENDED POLITICAL RISK INSURANCE ONLY TO AMERICAN CONTRACTING FIRMS WORKING ON AN AID-FINANCED PROJECT.

5. NEARLY ALWAYS VISITING US BUSINESSMEN HAVE BEEN IMPRESSED BY THE SENSITIVITY AND DIRECTNESS OF THOSE THEY DEAL WITH WHEN DISCUSSING INVESTMENT OPPORTUNITIES. NEVERTHELESS MANY FOREIGN BUSINESSMEN ARE UNEASY OVER TANZANIA'S PAST RECORD OF ABRUPT NATIONALIZATION, THOUGH THE TANZANIAN GOVERNMENT'S RECORD OF TREATING FOREIGN INVESTORS HAS BEEN GOOD IN RESPECT TO THOSE INVESTMENT CLIMATE MAY BE TEMPORARY AND THAT THE POLITICAL DRIVE FOR NEW NATIONALIZATIONS MAY RETURN IF ECONOMIC CONDITIONS IMPROVE. CONSEQUENTLY, INTEREST IN MINORITY POSITIONS COUPLED WITH FIRM MANAGEMENT CONTRACTS INVESTOR THINKING. ONE EXPERIENCED FOREIGN INVESTOR EXPRESSED THE CONCERN OF MANY WHEN HE NOTED THAT HE WOULD "HESITATE" TO COMMIT MORE CAPITAL IN TANZANIA BECAUSE "OVER THE LONG TERM IT WILL NOT GIVE A FAIR RETURN ON CAPITAL".

6. INVESTMENT STATISTICS: FOLLOWING ARE STATISTICS REQUESTED
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A. US DIRECT INVESTMENT (BOOK VALUE) AT END OF 1974:

TOTAL, ALL INDUSTRIES	US \$12.0 MILLION
MINING AND SMELTING	NIL
PETROLEUM	US \$9.0 MILLION
MANUFACTURING	US \$1.0 MILLION
OTHER INDUSTRIES	US \$2.0 MILLION.

B. DIRECT INVESTMENT BY ALL COUNTRIES (BOOK VALUE) END OF 1974:

TOTAL US \$91 MILLION
OTHER COUNTRIES (TOP THREE) U.K. US \$43 MILLION
WEST GERMANY US \$8 MILLION
ITAL US \$4 MILLION

C. DIRECT INVESTMENT IN THE U.S. BY TANZANIANS (BOOK VALUE)
AT THE END OF 1974: NIL.
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